

	Month (%)	Quarter (%)	FYTD (%)	1 Year (%)	2 Years (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception^ (% p.a.)
Perennial Value Microcap Opportunities Trust (Net)	-10.8	-13.1	-23.2	-23.6	3.2	5.3	15.3	14.2
S&P/ASX Small Ordinaries Accumulation Index	-7.0	-3.6	-7.4	-4.6	10.0	5.5	8.5	8.3
Value Added	-3.8	-9.5	-15.8	-19.0	-6.8	-0.2	6.8	5.9

^Since inception: February 2017. Past performance is not a reliable indicator of future performance.

Overview

For the month of May, the Trust was down 10.8%, underperforming the Index which was down 7.0%. The market was dragged down by continued concerns around inflation and the prospect for higher interest rates as well as the impact on the economic outlook.

The additional challenge was tax loss selling pressure which is likely to continue until 30 June. This impacted microcap names to a greater extent given their illiquid nature.

Updating our analysis from last month of the 900 companies in our Industrial Small Cap Universe shows that so far this calendar year, companies which started with a market cap of less than \$500m (the cap for our Microcap investable universe) were down 24.2% whereas Industrials above \$500m were only down 16.1% (median). This move, without reference to individual fundamentals, creates great investment opportunities.

In this vein, we were pleased to see the start of the M&A cycle with a takeover bid for Alliance Aviation, which is held in the Trust. We also witnessed takeovers of companies we don't hold but which are in the Information Technology sector where we have the largest overweight. This overweight reflects the high prospect of takeover activity but also the appeal of the more defensive earnings stream for the sector. The portfolio-average PE ratio of 10.9x remains at a sizeable discount to the index which is 14.0x for FY24.

Perennial Value Microcap Opportunities Trust

The aim of the Trust is to grow the value of your investment over the long term by investing in a portfolio of Australian companies that are either listed or unlisted companies found outside the S&P/ASX Top 100 Index, and to provide a total return (after fees) that exceeds the S&P/ASX Small Ordinaries Accumulation Index measured on a rolling three-year basis.

Portfolio Managers

Andrew Smith and Sam Berridge

Trust FUM

AUD \$208 million

Distribution Frequency

Annual

Minimum Initial Investment

\$25,000

Trust Inception Date

February 2017

Fees

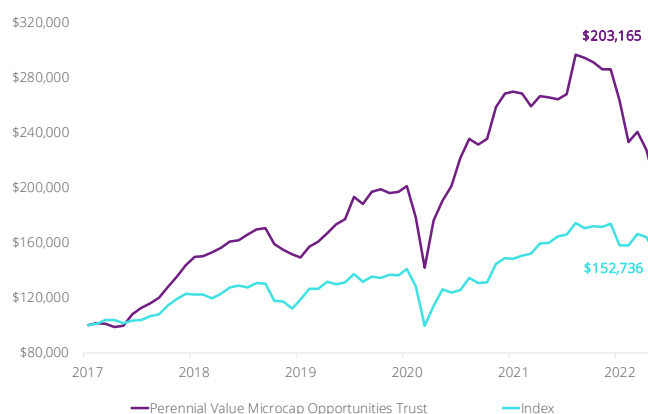
1.20% p.a. + Performance fee

APIR Code

WPC3982AU

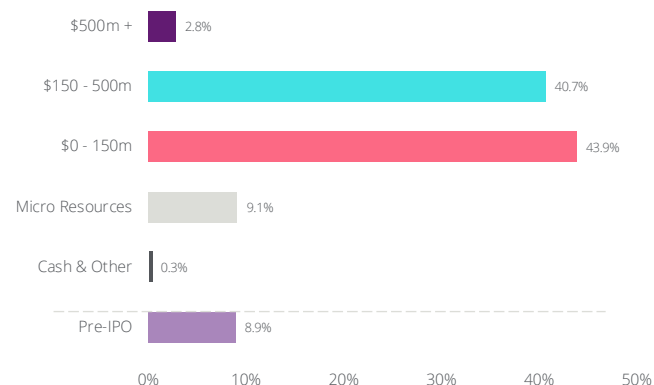
Top 5 Positions	Trust (%)	Index (%)
SUPERLOOP LTD	5.4	0.0
GOOD DRINKS AUSTRALIA LTD	4.5	0.0
LARK DISTILLING CO. LTD	4.4	0.0
NAVIGATOR GLOBAL INVESTMENTS	4.2	0.0
MAGGIE BEER HOLDINGS LTD	4.1	0.0

Growth of \$100,000 Since Inception



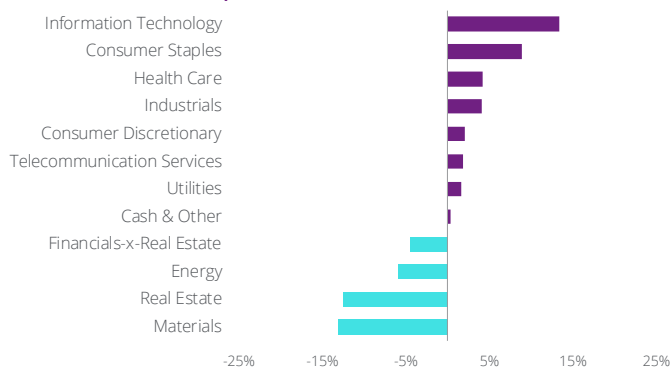
Performance shown net of fees with distributions reinvested. Does not take into account any taxes payable by an investor. Past performance is not a reliable indication of future performance.

Market Capitalisation Exposure



Please note, the above table may add to more than 100% as Pre-IPO equity positions will be double counted

Sector Active Exposure vs Index



Trust Review

The chart to the right splits out the Universe of Small Cap Industrials into those below \$500m (the investable universe for this fund) and those above \$500m at the start of the year.

The market is still shunning the less liquid names and ignoring the strong fundamentals of many of the smaller names. This situation is further exacerbated by the tax loss selling pressure which peaks in May and June.

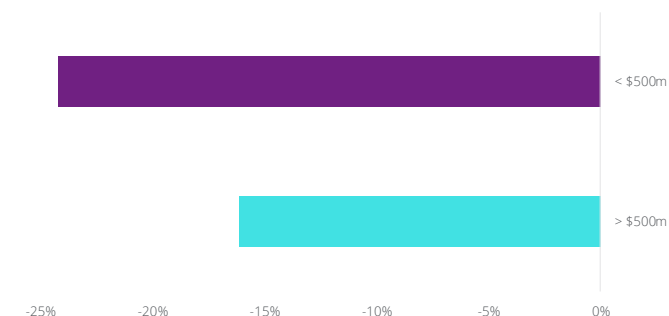
A classic case during the month was **Good Drinks Australia** (up only 2.0%) which announced a new distribution deal which has no upfront costs and adds \$35-40m revenue and \$3-4m EBITDA (resulting in >20% increase in broker forecasts) but had very little effect on the share price.

Alliance Aviation (+7.4% to \$4.07) received a takeover bid from Qantas at \$4.75 per share. ACCC approval is required hence the large discount which the stock is now trading at versus the bid price (further clarity is expected from the ACCC in August). The approach is encouraging given we see strong valuation support in Alliance at current share prices – indeed we believe corporate interest is likely in many other names in our portfolio and expect this to be a theme for the remainder of CY22.

Ridley (up 3.6%) outperformed the market during the month as management outlined their new FY23-FY25 growth plans following a very successful FY20-FY22 growth strategy. We were pleased to see the focus remains on stable and bankable internally-funded growth initiatives, with a clear emphasis on shareholder returns. In addition, and while volatile, the domestic agricultural environment remains constructive for Ridley and some of our other agribusiness investments.

Maggie Beer (down 20.4%) was able to deliver strong sales in Hampers and Gifts (+25.6%) and Maggie Beer Products (+19.3%) but was dragged down by the dairy assets which have been under review since the start of the year (divesting these will be a strong positive for the business in our opinion). There was also a lag in price increases in some channels so a short term margin hit occurred which is reversed as we enter FY23.

Our Universe – CYTD Performance (Median)



Source: FactSet, Universe is ex-100 down to \$20m Market Cap

Volatility month to month remains elevated with the presence of tax loss selling (or not) is a major driver at the moment, as an example:

- **Veem** (+15.6%) began to recover given improving prospects for Gyro sales with several new customers revealed on LinkedIn updates
- **Experience Co** (down 24.2%) with no newsflow and despite director buying and strong airport track numbers at their key Nth Qld location
- **DUG Technology** (down 28.2%) with no news flow (albeit just after month end, they announced they had successfully refinanced their debt which was pleasing to see)

Tax loss selling also created an opportunity to add to our preferred names on weakness as well as re-enter some names (such as Marley Spoon and Aeris Resources).

At month end, the Trust finished with 50 positions and cash of 0.3%.

Market Review – Australia (%)


S&P/ASX Small Ordinaries Index	-7.0
Energy	-1.4
Materials	-7.9
Industrials	-4.1
Consumer Discretionary	-9.7
Consumer Staples	-6.0
Health Care	-1.7
Financials	-3.5
Real Estate	-8.4
Information Technology	-5.2
Telecommunication Services	-9.9



Portfolio Managers: Sam Berridge (left) and Andrew Smith (right).

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